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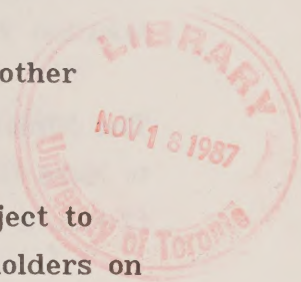
LEGISLATION PERMITTING PRIVATE CORPORATIONS TO MAKE YEAR-END ELECTION ANNOUNCED

The Honourable Michael Wilson, Minister of Finance, today announced that he intends to introduce legislation allowing Canadian-controlled private corporations to end their taxation years on December 31, 1987 and other private corporations on June 30, 1988.

Currently, one-half of a private corporation's capital gains are subject to tax and one-half of the gain may be distributed to Canadian shareholders on a tax-free basis. Beginning in 1988, the inclusion rate for capital gains is scheduled to increase to two-thirds and the remaining one-third will be available for distribution on a tax-free basis.

For private corporations with taxation years beginning before, but ending after, the effective date of the increase in the capital gains inclusion rate, the taxable portion of capital gains realized in the year and the amount that may be distributed to shareholders free of tax is to be determined on a pro-rated basis having regard to the number of days in the year preceding and following the effective date on which the inclusion rate changes. The effective date of the capital gains inclusion rate change is January 1, 1988 for Canadian-controlled private corporations and July 1, 1988 for other private corporations. Mr. Wilson said that private corporations would be permitted to establish their year-ends immediately before the inclusion rate changes.

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"As a consequence of the increased capital gains inclusion rate, a number of private corporations which have either disposed of or intend to dispose of capital property before the end of this year will be required to include an amount in excess of one-half of the resulting gain in income since their fiscal periods extend into 1988," the Minister said. "I recognize that there are instances where these corporations will wish to end their taxation years before the inclusion rate changes. This can be achieved under the existing law by arranging for the corporation to enter into an amalgamation, but the procedure is cumbersome. The change I am announcing is strictly technical. The purpose is to simplify the procedure by permitting Canadian-controlled private corporations to terminate their taxation years on December 31, 1987, and other private corporations to terminate their taxation years on June 30, 1988 simply by filing an appropriate election."

The Minister also noted that corporations making such elections may arrange to have their subsequent taxation years end at any time within the following 12-month period.

Draft legislation to implement these changes is attached.

For further information:

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DRAFT LEGISLATION

Notwithstanding subsection 249(1) of the Income Tax Act,

(a) where a Canadian-controlled private corporation so elects in its return of income under Part I for its taxation year that commenced before 1988 and would, but for this paragraph, have ended after 1987, that taxation year shall be deemed to have ended on December 31, 1987 and a new taxation year of the corporation shall be deemed to have commenced immediately after that date,

(b) where a private corporation, other than a Canadian-controlled private corporation, so elects in its return of income under Part I for its taxation year that commenced before July, 1988 and would, but for this paragraph, have ended after June, 1988, that taxation year shall be deemed to have ended on June 30, 1988 and a new taxation year of the corporation shall be deemed to have commenced immediately after that date, and

(c) where a corporation has made an election under paragraph (a) or (b), it shall be deemed not to have established a fiscal period before the date referred to in paragraph (a) or (b), as the case may be, for the purposes of determining the corporation's fiscal period after that date.

